This Stellar Company Is Attractive Right Now

Description

In the last year, **Stella-Jones** (TSX:SJ) corrected 23% to the $38 range. Investors really need to be cognizant of the price (i.e., valuation) they're paying for the company. Otherwise, it'd be a bad investment in a good company.

If investors had bought the stock at a reasonable price-to-earnings multiple (P/E) of about 18 back in early 2007, the stock would still have been a stellar investment, returning more than 14% per year in total returns, despite the big correction.

With the price decline, the stock is getting attractive again. It's now a good time for conservative investors to consider Stella-Jones by beginning to research the quality company.

What Stella-Jones does

Stella-Jones is the North American leader in manufacturing pressure-treated wood products. It has wood-treating facilities at strategic locations in the United States and Canada.

Stella-Jones's primary products are railway ties and utility poles. So, its key customers include America's largest railroads, telecom providers, and electrical transmission utilities. As railroads, telecoms, and utilities are needed for the economy, so is Stella-Jones to ensure their safe operations.

Stella-Jones' recent performance

Here are some key metrics compared to the same period in 2017:

	Q1-Q3 2017	Q1-Q3 2018	Change
Sales	$1,509 million	$1,691 million	12%
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	$203.5 million	$199.7 million	-1.9%
EBITDA margin	13.5%	11.8%	-1.7%
Operating income	$178.4 million	$174.5 million	-2.2%
Net earnings	$116.8 million	$117 million	-0.2%
Diluted earnings per share	$1.68	$1.69	0.6%

There's some cyclicality in Stella-Jones business based on demand for railway ties and utility poles. Although the first nine-month results didn't look that stellar, the company showed improvements in the third quarter compared to the same quarter in 2017 with a sales increase of nearly 22% to $630 million driven by sales prices, market demand, and acquisitions. Margins also improved compared to previous quarters for this year.

Dividend growth? Yes, please!

Stella-Jones has increased its dividend every single year since 2005 for 13 consecutive years. Its three-year dividend growth rate is 16.3%, while its dividend per share is 9% higher than it was a year ago.

At $38.83 per share as of writing, Stella-Jones offers a 1.24% yield. Its payout ratio is about 23%, so its dividend is very secure.

When should you buy quality stock?

The key to getting great returns from even the most quality of businesses is to purchase the stock at a good valuation. Right now, the stock is getting there; it trades at a blended P/E of about 18.7. A decent P/E to start picking at the stock will be 18, which indicates a target buy price of about $37.40 per share.

Actually, analysts find Stella-Jones to be attractive right now. The **Thomson Reuters** analysts have a 12-month mean target of $51.70 per share on the stock, which implies there's 33% near-term upside potential.

Management foresees higher demands for railway ties and utility poles, as well as improving operating margins next year, which could send the stock higher. So, over the next three to six months, interested investors should look for a potential bottom in the stock for a purchase.

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